

**A** *udit*

**R** *eport*



FINANCIAL REPORTING OF DEPARTMENT 97-FUNDED  
PROPERTY, PLANT, AND EQUIPMENT

Report No. D-2001-039

January 31, 2001

Office of the Inspector General  
Department of Defense

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<b>Supplementary Notes</b>		
<b>Abstract</b> This audit is the final part of the audit on inCompilation of the FY 1999 Financial Statements for Other Defense Organizations-General Fundli and in support of our audit of the FY 2000 Financial Statement. The Chief Financial Officers Act of 1990 requires DoD to prepare consolidated financial statements. The DoDn Agency-wide Financial Statements include financial statements for a reporting entity entitled inOther Defense Organizations-General Fund.lz The entity represents a consolidation of financial information from various Defense organizations and funds that use the Department 97 symbol. The FY 1999 Financial Statements for Other Defense Organizations-General Fund as prepared by Defense Finance and Accounting Service (DFAS) reported \$6.7 billion in assets. Of the \$6.7 billion in assets, \$2 billion were acquired with Department 97 funds allotted to the Military Departments.		
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### **Acronyms**

CFO	Chief Financial Officer
DFAS	Defense Finance and Accounting Service
PP&E	Property, Plant, and Equipment



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884**

January 31, 2001

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE**

**SUBJECT: Audit Report on Financial Reporting of Department 97-Funded Property,  
Plant, and Equipment (Report No. D-2001-039)**

We are providing this report for review and comment. We considered comments from the Defense Finance and Accounting Service when preparing the final report. A copy of the comments from the Under Secretary of Defense (Comptroller) was received too late to be included in the report, however, the Under Secretary of Defense comments were considered in preparing the final report.

Comments on the draft of this report conformed to the requirements of DOD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil) or Mr. Ronald W. Hodges at (703) 604-9592 (DSN 664-9592) (rhodges@dodig.osd.mil). See Appendix B for the report distribution. The team members are listed inside the back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

**Report No. D-2001-039**

**January 31, 2001**

(Project No. D2000FA-0043.003; formerly Project No. OFA-2018.003)

### **Financial Reporting of Department 97-Funded Property, Plant, and Equipment**

#### **Executive Summary**

**Introduction.** This audit is the final part of the audit on “Compilation of the FY 1999 Financial Statements for Other Defense Organizations-General Fund” and in support of our audit of the FY 2000 Financial Statement. The Chief Financial Officers Act of 1990 requires DoD to prepare consolidated financial statements. The DoD Agency-wide Financial Statements include financial statements for a reporting entity entitled “Other Defense Organizations-General Fund.” The entity represents a consolidation of financial information from various Defense organizations and funds that use the Department 97 symbol. The FY 1999 Financial Statements for Other Defense Organizations-General Fund as prepared by Defense Finance and Accounting Service (DFAS) reported \$6.7 billion in assets. Of the \$6.7 billion in assets, \$2 billion were acquired with Department 97 funds allotted to the Military Departments.

**Objectives.** Our objective was to determine whether Department 97-funded property, plant, and equipment should be reported on the Military Department or Other Defense Organizations Financial Statements when the funds are allotted to the Military Departments. We also reviewed the coordination procedures at the accounting offices supporting specific Other Defense Organizations to determine how those offices were recording and reporting Department 97-funded property, plant, and equipment.

**Results.** The DFAS Indianapolis Center, Chief Financial Officer Team, did not accurately report Department 97-funded property, plant, and equipment on the Financial Statements of the Other Defense Organizations. As a result, assets on the Financial Statements of the Other Defense Organizations-General Fund were materially overstated by \$1.1 billion, the Financial Statements of the Navy-General Fund were understated by \$222 million, and the DoD Agency-wide Financial Statements were overstated by \$839 million. Until corrected, these misstatements will be reported in FY 2000 and future year’s financial statements. For details of the audit results, see the Finding section of the report.

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller) provide clarifying guidance about how to transfer property, plant, and equipment and record differences between Department 97 and Military Department accounting classifications. We recommend that the Director, Defense Finance and Accounting Service, Sustaining Forces, Indianapolis, and the Defense Finance and Accounting Service, Cleveland, obtain information to confirm and report the users for medical equipment. We recommend that the Director, Defense Finance and Accounting Service, St. Louis, establish standard operating procedures for reporting Department 97-funded property, plant, and equipment.

**Management Comments.** A copy of the Under Secretary of Defense (Comptroller) comments was received too late to be included in the final report. However, the Under Secretary of Defense (Comptroller) offered instead an alternative corrective action. The Director for Accounting, Defense Finance and Accounting Service concurred with the recommendations. The Defense Finance and Accounting Service, Cleveland reviewed the Preponderant Users Regulation with the Navy Office of Financial Operations and agreed to report the Bureau of Medicine and Surgery Property, Plant, and Equipment on the Navy General Fund Financial Statements. The Director also stated that Defense Finance and Accounting Service St. Louis would prepare standard operating procedures to improve coordination with clients. Although not required to comment, the Director for Resource Management, Office of the Assistant Secretary of Defense Health Affairs agreed with the finding and each recommendation. See the Finding section for a discussion of the management comments and the Management Comments section for the complete text of the management comments.

**Audit Response.** The alternative action proposed by the Under Secretary of Defense (Comptroller) was responsive to the recommendation. Since the draft report was issued, the policy of preponderant users of property has come under review. Accordingly, our recommendation to the Defense Finance and Accounting Service concerning a determination of preponderant use should be held in abeyance pending the results of the policy review.

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## Background

The Under Secretary of Defense (Comptroller) allocated and allotted \$53.1 billion of Department 97 funds to the Other Defense Organizations and the Military Departments, in FY 1999.

**Other Defense Organizations.** The DOD Agency-wide Financial Statements include two columns for Other Defense Organizations: Other Defense Organizations-Working Capital Fund column, which includes the financial activity of working capital funds not associated with the Military Departments, and Other Defense Organizations-General Fund column, which includes the financial activity of various Defense organizations and funds using the Treasury Index 97 symbol. The corresponding DoD department code\* is 97 (Department 97). In this report, Other Defense Organizations refers to the Other Defense Organizations-General Fund reporting entity.

**Defense Finance and Accounting Service (DFAS) Responsibilities.** DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, October 1999, requires the DFAS to ensure that the preparation of financial reports is consistent, timely, and auditable, and that controls are in place to ensure the accuracy of the reports. The Chief Financial Officers Act of 1990 reporting responsibilities for the Other Defense Organizations are under the purview of the DFAS Center for Sustaining Forces, Indianapolis, Indiana, (DFAS Indianapolis Center).

## Objectives

The primary objective of the audit was to determine whether Department 97-funded property, plant, and equipment (PP&E) should have been reported on the Military Department or Other Defense Organizations Financial Statements when the funds were allotted to the Military Departments. We also reviewed the coordination procedures at the accounting offices supporting specific Other Defense Organizations to determine how those offices were recording and reporting Department 97-funded PP&E. Appendix A discusses the audit scope and methodology.

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\* A department code is a two-digit code that identifies the Military Department or Government entity receiving appropriations.

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## **Reporting of Department 97-Funded Property, Plant, and Equipment**

The DFAS Indianapolis Center, Chief Financial Officer Team, did not accurately report Department 97-funded PP&E on the financial statements of the Other Defense Organizations. The inaccurate reporting occurred for the following reasons:

- DFAS St. Louis Operating Location officials were not aware of DoD financial management regulations and did not have standard operating procedures related to reporting PP&E.
- The DFAS Indianapolis and Cleveland Centers improperly reported \$1.1 billion Department 97-funded medical equipment.
- The DFAS Indianapolis Center over reported \$839 million of the \$1.1 billion of Department 97-funded medical equipment on the Other Defense Organizations-General Fund Financial Statements.
- The Under Secretary of Defense (Comptroller) did not provide adequate guidance to transfer Department 97-funded PP&E to the general ledger of the Military Departments based on the preponderance of use policy.

As a result, the Financial Statements for the Other Defense Organizations were overstated by \$1.1 billion, the FY 1999 financial statements for the Navy-General Fund were understated by \$222 million, and the DoD Agency-wide Financial Statements were overstated by \$839 million, respectively. If not corrected, the Financial Statements for the Other Defense Organizations, the Army, and the Navy-General Fund will be misstated in FY 2000 and beyond.

### **DFAS Indianapolis Center**

The DFAS Indianapolis Center, Chief Financial Officer (CFO) Team, compiles financial data and prepares the Other Defense Organizations financial statements. The financial data is included in about 900 separate trial balances generated by accounting offices that support the Other Defense Organizations. Of \$6.7 billion of PP&E reported in the Financial Statements of the Other Defense Organizations-General Fund, approximately \$2 billion represented PP&E acquired with Department 97 funds allocated and allotted to the Military Departments.

The table on the next page summarizes the \$1.8 billion of Department 97-funded PP&E. Of the approximately \$1.8 billion, \$1.1 billion is medical PP&E. Of the \$1.1 billion, \$839 million was over reported on the Other Defense Organizations-General Fund Financial Statements, and \$222 million should have

been reported on the Navy-General Fund Financial Statements. The remaining \$.8 billion is general PP&E that should have been reported on the Army-General Fund Financial Statements but was reported as Ballistic Missile Defense Organization PP&E on the Other Defense Organizations Financial Statements.

<b>Department 97-Funded PP&amp;E</b> (millions)				
<u>Suballocation and Suballotment Holders</u>				
<u>Type of assets</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Total</u>
General property, plant, and equipment	\$ 765	0	0	\$ 765
Medical property, plant, and equipment	839	\$222	0	1,061
<b>Total</b>	<b>\$1,604</b>	<b>\$222</b>	<b>0</b>	<b>\$1,826</b>

## Other General Property, Plant, and Equipment

The DFAS St. Louis trial balances for the Army Space and Missile Defense Command contained general PP&E valued at \$765 million but did not include explanatory footnotes needed for the DFAS Indianapolis Center CFO Team to report PP&E on the financial statements of preponderant users and to disclose unreliable values.

**Trial Balance for the Army Space and Missile Defense Command.** The DFAS St. Louis did not provide sufficient and reliable information for about \$765 million of Department 97-funded PP&E in the Army Space and Missile Defense Command trial balance. The information was not sufficient because footnotes explaining that the Army used \$765 million of Department 97-funded PP&E to support Ballistic Missile Defense Organization programs were not included. The trial balance also did not identify the Contractor Property Management System as the source of the values for \$544 million of the \$765 million of Department 97-funded PP&E. The reliability of values in the Contractor Property Management System is discussed in the form and content volume of the DoD financial management regulation. Without explanatory footnotes, the DFAS Indianapolis CFO Team reported the PP&E on the Financial Statements of the Other Defense Organizations based on funding source instead of preponderance of use and did not disclose that \$544 million of the \$765 million reported was unreliable.

DFAS St. Louis reporting officials stated they were not aware of the DoD financial management regulation, did not have standard operating procedures for reporting PP&E, and that Army Space and Missile Defense Command property officials were responsible for the financial reporting of PP&E. However,

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DFAS accounting and reporting officials are responsible for being aware of DoD financial management regulations, establishing standard operating procedures for reporting PP&E in financial records, and having enough knowledge about clients to present sufficient and reliable financial information in organizational trial balances.

## **Medical Equipment**

DFAS Indianapolis officials improperly reported \$1.1 billion of Department 97-funded medical equipment on the FY 1999 Financial Statements of the Other Defense Organizations-General Fund. Of the \$1.1 billion, \$839 million was also reported on the FY 1999 Financial Statements of the Other Defense Organizations-General Fund, and \$222 million should have been reported on the FY 1999 Financial Statements of the Navy-General Fund. The memorandum titled "Revised Policy Pertaining to General Property Plant and Equipment," dated August 5, 1999, from the Under Secretary of Defense (Comptroller) specifically states that the Military Departments should report medical facilities and equipment, but DFAS Indianapolis officials did not apply the requirement when compiling the FY 1999 Financial Statements of the Other Defense Organizations-General Fund. Only DFAS Denver officials properly reported Department 97-funded medical equipment when compiling the Air Force financial statements. When DFAS Cleveland officials compiled the Navy financial statements, they submitted Department 97-funded medical equipment to DFAS Indianapolis based on the funding source.

DFAS Indianapolis officials stated that they were aware of the preponderance of use policy, that inclusion of the medical equipment on the Other Defense Organizations FY 1999 Financial Statements was an oversight, and that they would report medical equipment correctly in FY 2000. However, reporting the medical equipment on the Army, Navy, and Air Force Financial Statements in FY 2000 without transferring the equipment out of the Department 97 general ledgers will misstate the Other Defense Organizations and the Departments of the Army, Navy, and Air Force net position.

## **Transferring Property, Plant, and Equipment**

None of the DFAS locations transferred Department 97-funded PP&E from the Department 97 general ledgers to the general ledgers of the preponderant users. We verified the lack of transfers through examination of \$1.1 billion of medical PP&E submitted by the Departments of the Army and Navy under Department 97 and reported on the FY 1999 Other Defense Organizations Financial Statements. The August 5, 1999, memorandum from the Under Secretary of Defense (Comptroller) clarified the DoD Regulation 7000.14R, volume 4, chapter 6, "Property, Plant and Equipment," stating that DoD activities that meet the criteria of the preponderant users should report general PP&E in their financial records. The August 5, 1999, memorandum did not address how DFAS should record journal entries to transfer PP&E from the activity that financed the PP&E to the using activity's financial statements in accordance with the preponderance of use policy.

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Reporting Department-97 funded medical PP&E on the Military Departments (preponderant users) financial statements without accounting entries to transfer PP&E out of Department 97 and into the preponderant user's general ledgers will misstate both the Army and Navy General-Fund and Other Defense Organizations Statement of Changes of Net Position by \$1.1 billion.

DFAS depends on the property book officer to provide information verifying that equipment purchased with Department 97 funds should be transferred to the preponderant user's financial statements. However, there is no specific accounting guidance regarding the transfer of Department 97-funded PP&E to the preponderant user's financial statements. Our discussion with DFAS accounting officials showed that there was concern over the lack of accounting guidance regarding PP&E transfers. The Under Secretary of Defense (Comptroller) should clarify the guidance in the DoD Regulation 7000.14R, volume 4, chapter 6, "Property Plant and Equipment," for identifying the information DFAS needs to record the proper journal entry when transferring PP&E to the preponderant user's financial statements. Additionally, as a provider of accounting services to Military Departments and Defense agencies, DFAS should explicitly identify the data elements needed to properly record and report PP&E in the accounting records.

## **Recommendations**

**1. We recommend that the Under Secretary of Defense (Comptroller), provide clarifying guidance in the DoD Regulation 7000.14R, volume 4, chapter 6, "Property, Plant and Equipment," about how to transfer property, plant, and equipment between Department 97 and Military Department accounting classifications.**

**Management Comments Required.** A copy of the Under Secretary of Defense (Comptroller) comments to the draft of this report was received too late to be included in the final report. The Under Secretary offered instead an alternative that DFAS establish appropriate procedures to ensure that Department 97 funds, used to acquire medical equipment, are excluded from Other Defense Organizations trial balances and properly reflected on the accounts of the Military Departments.

**Audit Response.** The alternative action to have DFAS develop procedures to accurately account for Department 97 funds is responsive to our recommendation.

**2. We recommend that the Director, Defense Finance and Accounting Service, Sustaining Forces, Indianapolis, and the Defense Finance and Accounting Service, Cleveland, obtain information from the property book officer to confirm the preponderant users for medical equipment to report on the preponderant user's financial statements.**

**3. We recommend that the Director, Defense Finance and Accounting Service, St. Louis, establish standard operating procedures to coordinate with clients and obtain sufficient and reliable information for reporting Department 97-funded property, plant, and equipment.**

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**Management Comments.** The Director for Accounting, Defense Finance and Accounting Service concurred with the recommendations. The Defense Finance and Accounting Service, Cleveland reviewed the Preponderant Users Regulation with the Navy Office of Financial Operations. According to the Defense Finance and Accounting Service, the Navy Office of Financial Operations agreed to report the Bureau of Medicine and Surgery Property, Plant, and Equipment on the Navy General Fund Financial Statements. The Director for Accounting also stated that Defense Finance and Accounting Service, St. Louis would prepare standard operating procedures by January 31, 2001 to improve coordination with clients. The Director for Resource Management, Office of the Assistant Secretary of Defense Health Affairs also commented and agreed with the finding and each recommendation. The Under Secretary of Defense (Comptroller) provided comments (too late for inclusion in this report) which disagreed with the recommendation, stating that the Defense Finance and Accounting Service did not need to obtain information from property book officers to confirm preponderant use of medical equipment.

**Audit Response.** We encourage the Defense Finance and Accounting Service efforts to develop operating procedures to improve coordination with its clients. Since the draft report was issued, the policy of preponderant use relative to plant, property and equipment came under review. Accordingly, our recommendation should be held in abeyance pending the results of the policy review.

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## Appendix A. Audit Process

### Scope

**Financial Data Reviewed.** We reviewed the processes used to record and report \$3.2 billion of Department 97-funded PP&E constructed or acquired by the Military Departments. Specifically, we reviewed the DFAS Indianapolis Center database supporting the PP&E line item of the FY 1999 Balance Sheet of the Other Defense Organizations-General Fund. We verified that PP&E valued at \$1.8 billion existed in the DFAS St. Louis and San Antonio general ledger trial balances dated September 30, 1999. We reviewed Brook Army Medical Center property certifications and property records for Department 97-funded PP&E valued at \$167 million and \$1.6 million, respectively. We also reviewed Army Space and Missile Defense Command property certifications for PP&E valued at \$1.6 billion and property records for Department 97-funded PP&E valued at \$5 million.

**Amounts Reported in the FY 1999 Financial Statements.** The FY 1999 Financial Statements of the Other Defense Organizations-General Fund showed total assets of \$44 billion, total budgetary authority of \$53.1 billion, and net cost of operations of \$84.4 billion.

**Scope Limitation.** We did not review the DFAS management control program or DFAS internal controls over reporting of PP&E because they were previously reviewed and reported on in Inspector General, DoD, Report No. D-2000-103, "Internal Controls and Compliance With Laws and Regulations for the FY 1999 Financial Statements for Other Defense Organizations-General Fund," March 16, 2000.

**DoD-Wide Corporate-Level Government Performance and Results Act Coverage.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following objectives and goals, subordinate performance goals, and performance measures:

**FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance systems. **(01-DoD-2.5.1.).**

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- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**.

**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals:

**Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Clarify financial management policies. **(FM-4.1) Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers Financial Improvement Act. **(FM-5.3)**

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

## Methodology

**Auditing Standards.** This financial related audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, based on the objectives of the audit and the limitations to the scope described in this appendix.

**Computer-Processed Data.** We used DFAS computer-processed data in this audit; however, we did not confirm reliability of the data because the accounting systems used to prepare the Financial Statements for Other Defense Organizations had serious limitations. The lack of reliable financial information was described as a material management control deficiency in the FY 1999 DoD Annual Statements of Assurance. The lack of reliable information did not adversely affect our analysis.

**Audit Period, Location, and Contacts.** We performed this financial-related audit from April through September 2000 at the DFAS Indianapolis, Cleveland, and Denver. We also visited and contacted the Army Corps of Engineers, DFAS St. Louis and San Antonio locations, Brook Army Medical Center, and the Army Space and Missile Defense Command. Further details are available on request.

## Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial reporting of PP&E. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Unrestricted Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>.



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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Comptroller (Program/Budget)  
Deputy Chief Financial Officer  
Director for Accounting Policy

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Commander, Ballistic Missile Defense Organization  
Director, Defense Finance and Accounting Service  
Director, Tricare Management Activity  
Director, Washington Headquarters Services

### **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

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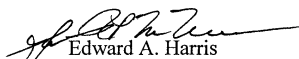
DFAS-DAS

DEC 29 2000

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: Audit Report on Financial Reporting of Department '97-Funded Property, Plant, and  
Equipment (Project No. D2000FA-0043.003) (formerly Project No. 0FA-2108.003)

Our response to the subject request is attached. The point of contact is Mr. David Arvin,  
(703) 607-2857 or DSN 327-2857.

  
Edward A. Harris  
Director for Accounting

Attachment:  
As stated

cc:  
DFAS-DDI  
DFAS-RCBA/IN  
DFAS-AJIS/CL

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**DFAS Comments on Audit Report on Financial Reporting of Department 97-Funded  
Property, Plant, and Equipment (Project No. D2000FA-0043.003)  
(formerly Project No. 0FA-2108.003)**

**Responses to Recommendations**

**Recommendation 2:** We recommend that the Director, Defense Finance and Accounting Service, Sustaining Forces, Indianapolis, and the Defense Finance and Accounting Service, Cleveland, obtain information from the property book officer to confirm the preponderant user for medical equipment to report on the preponderant users financial statements.

**DFAS Management Comments.** Concur. The Policy Branch of the Defense Finance and Accounting Service Cleveland Field Organization reviewed the applicable Department of Defense Financial Management Regulation and brought the regulation to the attention of the Navy's Office of Financial Operations (FMO). The FMO subsequently agreed to report the Bureau of Medicine and Surgery Property, Plant, and Equipment on the TI17 (Navy General Fund) Audited Financial Statements (AFS) report instead of on the TI97 (Other Defense Organizations) report. The Analysis and Review Branch verified that funds were transferred from the TI97 FY 2000 AFS to the TI17 FY 2000 AFS to reflect the transfer of assets. See Footnote 10 disclosure in the Navy General Fund FY 2000 AFS. This action was completed November 2000 (tab A).

For the Army's General Fund financial statements for FY 2000, DFAS Indianapolis Field Organization recorded the general equipment balances provided by the Logistics Support Activity (LOGSA) (tab B). The LOGSA personnel confirmed that medical equipment is included in the Army General Fund balances and that medical equipment balances are taken from the Army Medical Department Property Accounting System. The medical equipment in the Army Medical Department Property Accounting System is supported by certification statements submitted by medical property book officers. For future years, the Indianapolis Field Organization will study and implement all clarifying guidance that results from actions taken by the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) in recommendation 1 of this report.

**Estimated Completion Date.** December 31, 2001.

**Recommendation 3:** We recommend that the Director, Defense Finance and Accounting Service, St. Louis Operating Location, establish standard operating procedures to coordinate with clients and obtain sufficient and reliable information for reporting Department 97-funded property, plant, and equipment.

**DFAS Management Comments.** Concur. The St. Louis Field Organization is preparing standard operating procedures to improve coordination with clients.

**Estimated Completion Date.** January 31, 2001.

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# Office of the Assistant Secretary of Defense Health Affairs Comments



TRICARE  
MANAGEMENT  
ACTIVITY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
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FALLS CHURCH, VIRGINIA 22041-3206


JAN 10 2001

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Concurrence of Audit Report on Financial Reporting (Project No. D2000FA-0043.003)

We have reviewed the subject audit report and concur with each finding and recommendation.

My point of contact is Mr. David Hofflinger who is available at (703) 681-7813.

  
Jean Storck  
Director, Resource Management

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to this report, are listed below.

F. Jay Lane

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Charles J. Richardson

Ronald W. Hodges

Robert P. Goldberg

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